

State Notes

TOPICS OF LEGISLATIVE INTEREST

September/October 2007



Michigan's Photo ID Requirement for Voters **By Suzanne Lowe, Bill Analysis Coordinator**

In the general election on November 6, 2007, election officials will implement Michigan's requirement that voters present photo identification. This statutory requirement was first enacted in 1996, found unconstitutional by the Attorney General in 1997, re-enacted in 2005, and upheld by the Michigan Supreme Court in July 2007. As a result, in order to receive a ballot, voters must present a driver license, an official State personal identification card, or another generally recognized picture ID card (a U.S. passport, State or Federal ID, military ID card, tribal ID card, or high school or university ID). Voters who do not have one of these forms of identification must be allowed to vote if they sign an affidavit at the polling place. The photo ID requirement applies only to those who vote in person on election day; it does not affect absentee voting.

Like the requirement in Michigan, other states' photo ID requirements for voters have been and continue to be the subject of controversy and litigation. To a large extent, the grounds for upholding or opposing the requirements are similar or the same in the various jurisdictions. A challenge to Indiana's law, which is considered the most stringent, presently is before the United States Supreme Court.

This article discusses the history of Michigan's voter ID requirement, the recent Michigan Supreme Court decision, the Secretary of State's implementation of the requirement, and developments in other states.

History

This State's voter ID requirement is found in Section 523 of the Michigan Election Law (MCL 168.523). The language in question was added by Public Act 583 of 1996, which made a number of other amendments to the Election Law. The relevant part of Section 523 states:

At each election, before being given a ballot, each registered elector offering to vote shall identify himself or herself by presenting an official state identification card..., an operator's or chauffeur's license..., or other generally recognized picture identification card...If the elector does not have an official state identification card, operator's or chauffeur's license..., or other generally recognized picture identification card, the individual shall sign an affidavit to that effect before an election inspector and be allowed to vote as otherwise provided in this act. However, an elector being allowed to vote without the identification required...is subject to challenge as provided in section 727.

(Under Section 727, an election inspector is required to challenge a person applying for a ballot if the inspector knows or has good reason to suspect that the applicant is not a qualified and registered elector of the precinct. Any registered elector of the precinct who is present in the polling place is permitted to challenge a person attempting to vote if the challenger knows or has good reason to believe that the individual is not a registered elector in that precinct.)

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On January 29, 1997, before Public Act 583 took effect, then-Attorney General Frank Kelley issued an opinion that the amendment to Section 523 violated the Equal Protection Clause of the 14th Amendment to the United States Constitution (OAG No. 6930). (That clause essentially prohibits the government from treating people differently on the basis of certain characteristics that do not justify disparate treatment.) The Attorney General's opinion is described below because virtually the same issues were discussed 10 years later by the Michigan Supreme Court, though at much greater length, taking into consideration subsequent developments, and with the opposite outcome.

When a law is subject to an equal protection challenge, the court is required to apply one of three levels of review, depending on the nature of the alleged classification. The highest level, "strict scrutiny", is applied when the law results in a classification based on a "suspect" factor, such as race or national origin, or when "fundamental rights" are violated. Under this standard, the law must be narrowly tailored to serve a compelling governmental interest. If strict scrutiny is not required, courts apply either a "rational basis" review or an intermediate "heightened level" of review. Under a rational basis review, courts will uphold legislation as long as it is rationally related to a legitimate governmental purpose. When a heightened level of review is used, a challenged statutory classification will be upheld if it is substantially related to an important governmental objective.

Based on U.S. Supreme Court and Michigan Supreme Court precedent, the Attorney General determined that it was proper to apply the strict scrutiny test to the photo ID requirement, because the law imposed a restriction on the fundamental right to vote. The Attorney General then examined the magnitude of the burden imposed by the requirement and stated, "For the poor, those who do not drive, especially the elderly, the handicapped and those who, for whatever reason, do not possess a picture identification card, this requirement imposes economic and logistical burdens. If they do not obtain the photo identification card or sign the affidavit, they are denied the right to vote even though they are otherwise qualified to vote."

The Attorney General found that the ID requirement was designed to serve a valid governmental interest: the prevention of voter fraud. Due to the lack of evidence of voter fraud in Michigan, however, the Attorney General held that the requirement was "simply not necessary to promote a compelling governmental interest". The Attorney General also pointed out that Michigan had numerous other statutory provisions in place to safeguard the integrity of the election process and protect against voter fraud. As a result of this opinion, the voter ID requirement was not implemented, although it remained in the law.

Eight years later, Public Act 71 of 2005 amended Section 523 as well as other sections of the Election Law. The amendments to Section 523 added language but did not change the photo ID requirement in any way. By amending that section, Public Act 71 in effect re-enacted the requirement. Because of the 1997 Attorney General opinion, however, the Secretary of State evidently would not have taken steps to implement the re-enacted provisions unless they were found to be constitutional.

Before the January 1, 2007, effective date of Public Act 71, the Michigan House of Representatives adopted House Resolution 199, requesting the Michigan Supreme Court to



issue an opinion on the constitutionality of the photo ID requirement. The House resolution was adopted on February 22, 2006, pursuant to Article III, Section 8 of the State Constitution. That section provides, "Either house of the legislature or the governor may request the opinion of the supreme court on important questions of law...as to the constitutionality of legislation after it has been enacted into law but before its effective date." Specifically, the House asked for an opinion on the following question: "Do the photo identification requirements contained in 2005 PA 71 violate either the Michigan Constitution or the United States Constitution?"

On April 26, 2006, the Michigan Supreme Court granted the request of the House of Representatives for an advisory opinion, although the Court order phrased the request as asking whether the photo ID requirements "on their face" violate either Constitution (474 Mich 1230). (A party challenging the facial constitutionality of a statute must show that there are no circumstances under which the act would be valid. An "as applied challenge", on the other hand, considers the application of a law to individual facts.) Justice Cavanagh would have declined to issue an advisory opinion, and Justice Kelly dissented on two grounds: 1) The subject matter of the request was overly broad, and 2) the Court altered the question asked in the House resolution.

Michigan Supreme Court Advisory Opinion

On July 18, 2007, the Michigan Supreme Court issued its advisory opinion upholding the photo ID requirement in Section 523 of the Michigan Election Law (*In Re Request for Advisory Opinion*, 479 Mich 1). According to the majority of the Court, "The identification requirement is a reasonable, nondiscriminatory restriction designed to preserve the purity of elections and to prevent abuses of the electoral franchise..., thereby preventing lawful voters from having their votes diluted by those cast by fraudulent voters." The Court also found that the requirement is not an unconstitutional poll tax under the 24th Amendment to the U.S. Constitution, because no voter is required to incur the costs of obtaining a photo ID as a condition of voting.

Before discussing the requirement's constitutionality, the Court described events that took place in the years after the Attorney General's 1997 opinion. In particular, Congress passed the Help America Voter Act (HAVA) in 2002, after the 2000 presidential election revealed "alleged deficiencies in the electoral system in several states". Among other things, HAVA requires first-time voters who register by mail to present proof of identity in the form of photo identification or other documentation. The Commission on Federal Election Reform then was formed to assess HAVA's implementation. In September 2005, the Commission issued its recommendations, including a proposal that voters provide photo ID, in order to deter fraud and enhance ballot integrity.

The Court recognized that a citizen's right to vote is fundamental, but said that it competes with the State's compelling interest in preserving the integrity of its elections and the Legislature's obligation, under Article II, Section 4 of the State Constitution, "to enact laws to preserve the purity of elections" and "to guard against abuses of the elective franchise". According to the Court, this obligation includes ensuring that lawful voters do not have their votes diluted by fraudulent voting.



Although the right to vote is fundamental, the Court found that it was not necessary to apply the strict scrutiny test when evaluating the constitutionality of every election law, in reliance on U.S. Supreme Court precedent, particularly *Burdick v Takushi* (504 US 428). Rather, the proper level of review depends on the severity of the burden imposed on an elector. If the burden on the right to vote is severe, then the restriction must be narrowly drawn to serve a compelling state interest. On the other hand, if the restriction is reasonable and nondiscriminatory, the law is justified by an important regulatory interest identified by the state.

Applying this flexible standard, the Michigan Supreme Court found that the requirement to present a photo ID or sign an affidavit does not impose a severe burden on the right to vote, and imposes only a reasonable, nondiscriminatory restriction on the election process in furtherance of Michigan's compelling regulatory interest in preventing voter fraud and enforcing the constitutional obligation to preserve the purity of elections and guard against abuses of the elective franchise. Thus, the Court held that the law is facially constitutional. The Court also rejected opposing counsel's argument that the Michigan Constitution grants a higher level of protection and that the flexible test is not consistent with it.

The Court then rejected the argument that the photo ID requirement amounts to an unconstitutional poll tax because a voter must pay \$10 for a State identification card or \$25 for a driver license, as well as incur the costs of transportation to a Secretary of State office, taking time off work to do so, and procuring documentation necessary to obtain an ID card or a license. The Court pointed out that a voter without photo ID simply may sign an affidavit in the presence of an election inspector. In addition, under the law providing for the official State identification card, the Secretary of State is required to waive the fee if the applicant is 65 years of age or older; has had his or her driver license suspended, revoked, or denied due to a mental or physical infirmity or disability; presents evidence of statutory blindness; or presents other good cause for a fee waiver (MCL 28.292(14)).

In separate dissenting opinions, Justice Cavanagh and Justice Kelly both found the photo ID requirement unconstitutional under the U.S. and Michigan Constitutions, on the ground that it infringes on the actual right to vote and is not narrowly tailored to achieve a compelling governmental interest. Justice Kelly said that the majority was "badly mistaken" in applying a more relaxed standard and had misread *Burdick*. Both justices pointed out that the ID requirement is designed to prevent *in-person* polling place fraud, and no evidence of such fraud had been presented. Justice Cavanagh also noted that Michigan has numerous statutes that criminalize voter fraud, as well as a statutory scheme that manages all aspects of elections. In addition, the dissenting justices found that the requirement will have a disparate impact on racial, ethnic, or disadvantaged populations.

Regarding the option to sign an affidavit, Justice Kelly said that even if signing an affidavit is just a minor obstacle, as the majority held, it is imposed only on a select group of otherwise qualified voters. Justice Cavanagh said that the affidavit exception will not help because, even if citizens know about it, voters may face harassment and intimidation through the challenge process, or may have difficulty understanding the affidavit. Justice Cavanagh concluded that the law fails not only the strict scrutiny test, but also the rational basis test, "...because it is not a reasonable and nondiscriminatory restriction justified by an important state interest".



To date, no suit challenging the Michigan law has been filed in Federal court. If such a suit were filed, it would likely be held in abeyance, pending the United States Supreme Court's decision on the Indiana statute.

Implementation

According to a press release issued on September 5, 2007, Secretary of State Land provided Michigan's election officials with instructional materials designed to help them implement the photo ID requirement, and the Bureau of Elections is conducting training on the law for the local officials. Although a public information campaign apparently is not being undertaken, question-and-answer materials evidently are being delivered to Secretary of State branch office employees.

The website of the Bureau of Elections contains a "Notice to Voters: New Voter Identification Requirement in Effect". This explains that every Michigan voter will have to show picture ID or sign an affidavit attesting that he or she is not in possession of a picture ID. The notice also informs voters that they can satisfy the requirement by showing a Michigan driver license, a Michigan personal identification card, or one of the following:

- Driver license or personal ID card issued by another state.
- Federal or state government-issued photo identification.
- U.S. passport.
- Military ID card with photo.
- Student ID card with photo from a high school or an accredited institution of higher education.
- Tribal ID card with photo.

The Department of State website contains a document entitled, "Picture Identification in the Polls: Questions and Answers". This gives instructions to election officials for implementing the photo ID requirement. For example, it explains that the affidavit form may be used by 1) voters who do not have picture ID, and 2) voters who have picture ID but did not bring it to the polls. On the other hand, if a voter has a photo ID that is not acceptable and he or she cannot produce a second piece of picture ID, the election inspector is instructed to issue a provisional ballot and contact the clerk. (When a provisional ballot is cast, the local clerk must determine, within six days after the election, whether the voter was eligible to vote and whether to tabulate the ballot. When a voter signs an affidavit, however, his or her vote will be tabulated on election day.)

The question-and-answer document explains that a voter may not be challenged *just* because he or she is not in possession of picture ID or did not bring it to the polls and signs an affidavit. Like any other voter, he or she may be challenged if an election inspector or challenger has good reason to believe that the person is not qualified to vote in the precinct.

The document also states that local clerks must retain completed affidavit forms for two years, but precinct boards are not required to create or maintain any other records associated with the picture ID requirement.



In addition, the Department of State website contains the affidavit form that will be used for those voting without picture ID. This two-part form contains the voter's affirmation that he or she is not in possession of a driver license, a State-issued ID card, or any other form of picture identification, as well as the election inspector's certification that the voter completed the affidavit in the inspector's presence. The affidavit also contains the following statement: "Penalty: Making a false statement in this affidavit is perjury, punishable by a fine up to \$1,000.00 or imprisonment for up to 5 years, or both."

(Under Section 933 of the Election Law, making a false affidavit for the purpose of voting is perjury, and Section 936 prescribes the \$1,000/five-year penalty. These provisions are not limited to making a false statement in the affidavit described above. The Law also contains a number of additional criminal penalties for violations, and makes it a misdemeanor to challenge a qualified and registered voter for the purpose of annoying or delaying voters.)

Developments in Other States

According to the National Conference of State Legislatures, voters in 24 states (besides Michigan) are required to show identification before voting, and all of these states have some sort of recourse for voters without ID to cast a vote. (This information was last updated in February 2007.) Eight of the 24 states require voters to show *photo* ID: Arizona, Florida, Georgia, Hawaii, Indiana, Louisiana, Ohio, and South Dakota. The laws in Arizona, Georgia, and Indiana have been litigated in Federal court, as described below.

On September 25, 2007, the United States Supreme Court agreed to consider a challenge to the Indiana law (*Indiana Democratic Party v Rokita* and *Crawford v Marion County Election Board*). This statute, with certain exceptions, requires a voter to show valid photo ID before casting a ballot in a primary or general election, unless the person votes by absentee ballot or lives in a nursing home. A voter who does not have valid ID, if challenged, may cast a provisional ballot and then has until 10 days after the election to sign an affidavit affirming that he or she is the person who cast the provisional vote and either provide valid ID or sign an affidavit claiming indigence or religious objection to having his or her photograph taken.

The U.S. Court of Appeals for the Seventh Circuit upheld Indiana's law in January 2007. The opinions of the majority and dissenting judges were similar to those of the Michigan Supreme Court justices, including the majority's conclusion that the law does not have to serve a compelling state interest, and that the purpose of the law is to reduce voting fraud, which impairs the right of legitimate voters to vote by diluting their votes. The majority also said that the lack of prosecutions for impersonating a registered voter was explained by the "endemic underenforcement of minor criminal laws...and by the extreme difficulty of apprehending a voter impersonator". The dissenting judge described the law as "a not-too-thinly-veiled attempt to discourage election-day turnout by certain folks believed to skew Democratic" (a view shared by other opponents of voter photo ID laws). This judge would have applied a strict scrutiny test, and concluded that the law "imposes an undue burden on a recognizable segment of potential eligible voters" and therefore violates their rights under the U.S. Constitution.

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The Arizona law, which was approved by the state's electors in 2004, requires a voter to present one form of identification that bears his or her name, address, and photograph, or two different forms of ID that bear the voter's name and address. A voter who does not have the required ID must receive a provisional ballot, which will be counted if the voter provides ID to a county official within five business days after the election. A voter who knows that he or she cannot secure proper ID within that time frame has the option to vote before election day. The law also requires voters to present proof of citizenship when they register to vote. In September 2006, the U.S. District Court denied a request for a preliminary injunction. The U.S. Court of Appeals for the Ninth Circuit then enjoined Arizona from enforcing the law pending disposition of appeals of the denial of the preliminary injunction. On October 20, 2006, the U.S. Supreme Court vacated the order of the Court of Appeals, allowing the November 2006 election to proceed without an injunction suspending the voter ID rules (*Purcell v Gonzalez* and *Arizona v Gonzalez*, 549 US ____).

The U.S. Supreme Court discussed a state's interest in preserving the integrity of the election process and said, "Voter fraud drives honest citizens out of the democratic process and breeds distrust of our government. Voters who fear their legitimate votes will be outweighed by fraudulent ones will feel disenfranchised." The Court emphasized, however, that it was expressing no opinion on the correct disposition of the appeals from the District Court's original order, or on the ultimate resolution of the cases. In April 2007, the U.S. Court of Appeals affirmed the denial of the preliminary injunction, and in August 2007, the District Court granted the defendants summary judgment.

Georgia's current voter ID requirements were enacted in 2006, when a law repealed and re-enacted requirements that had been approved in 2005. Essentially, registered voters in Georgia who vote in person must present a government-issued photo ID as a condition of being admitted to the polls and before being issued a ballot and being allowed to vote. A voter who does not have any of the types of ID listed in the act must be allowed to vote a provisional ballot. The 2006 law added a requirement that the board of elections in each county issue a Georgia voter ID card containing a photo, without charge to voters residing in the county, upon presentation of certain identifying documents. A voter must swear that he or she does not have any other form of acceptable ID and must produce evidence that he or she is registered to vote in Georgia. (The 2006 law struck a former requirement that a voter execute an affidavit of poverty in order to obtain an ID without charge.)

Both the 2005 and the 2006 statutes were challenged in the U.S. District Court and various preliminary injunctions were issued. In August 2007, a trial was held on the plaintiffs' request for a permanent injunction. The Court applied the *Burdick* "sliding scale" standard of review, and denied the permanent injunction (*Common Cause/Georgia v Billups*). The Court found that the plaintiffs had failed to demonstrate that the photo ID requirement placed an undue or significant burden on the right to vote, failed to show that it was not reasonably related to the state's interest in preventing fraud in voting, and failed to succeed on the merits of their claim that the act violated the Equal Protection Clause. On October 2, 2007, an appeal was filed with the U.S. Court of Appeals for the 11th Circuit.



Conclusion

According to the Secretary of State's office, approximately 370,000 registered voters in Michigan (or about 5.0% of all registered voters in the State) do not have either a driver license or an official State identification card. There are no data on the number of voters who also do not have any of the other types of photo ID that the Secretary of State considers acceptable. Of the voters who do have photo ID, there is no way of knowing how many will not bring it to the polls because they forget to or do not know about the law's requirement. It also is not possible to predict how many voters who do not have photo ID, or have it but do not bring it to the polls, will be unable to sign an affidavit because they cannot read or understand the document, or will be unwilling to sign one because they feel intimidated or embarrassed or simply do not want to take the time.

Whether the photo ID requirement actually represents a "barrier to the ballot box", as critics contend, may be known only after the requirement is implemented, and perhaps only after it is enforced during the November 2008 general election. Whether the requirement serves to prevent voter fraud may never be known. Although there have been convictions in Michigan for illegal activity during voter registration drives, there does not appear to be any evidence of the type of in-person polling place voter impersonation that the photo ID requirement might deter. As some contend, this may be because of the difficulty of detecting such activity and catching the offenders. On the other hand, to the extent that such fraud does occur, it is questionable whether the penalty for signing a false affidavit will deter someone who is willing to commit a felony by voting under a false name or impersonating another elector.

The issue of voter fraud is subject to considerable debate not only in Michigan but across the country. Most reports appear to indicate that actual voter fraud is negligible and isolated, and voting irregularities simply may be the result of mistakes or outdated voter files ("In 5-Year Effort, Scant Evidence of Voter Fraud", *The New York Times*, 4-12-07). The absence of pervasive voter fraud, however, has not swayed the courts that have upheld voter photo ID laws. It remains to be seen whether the United States Supreme Court will agree that these laws serve an important (or compelling) state interest by preventing potential voter fraud from diluting legitimate votes.

The impact on Michigan of the Court's eventual decision in the Indiana case will depend on the outcome, of course. That case is expected to be heard in the spring of 2008, and the Court may or may not make a decision before the November 2008 general election. If the Court finds that the Indiana statute is unconstitutional, it is safe to say that Michigan's photo ID requirement likely will be challenged. The result of such an action cannot be predicted, however, because the states' laws differ and the grounds for a challenge will depend on the Court's reasoning.

If the U.S. Supreme Court upholds the Indiana law, opponents of the Michigan photo ID requirement will have little or no recourse in the courts, but could seek a statutory amendment (as they can now). To date, one bill to repeal the requirement has been introduced in the Michigan Senate. Senate Bill 758, whose primary sponsor is Senator Cherry, has been referred to the Senate Committee on Campaign and Election Oversight.

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Employment Performance in Michigan Compared with Other States **By David Zin, Economist**

On September 25, 2007, the U.S. Department of Labor's Bureau of Labor Statistics released the August employment information for states. While Michigan did not experience the largest monthly decline in employment from the July level, Michigan did report the largest year-over-year percentage decline in employment (-1.3%, compared with an average 1.2% increase nationally) and, with the exception of Ohio, which had a 0.02% decline, Michigan was the only state to exhibit a year-over-year decline in payroll employment. Michigan also exhibited the highest unemployment rate in the nation (7.4%, compared with a national average of 4.6%) and showed the largest employment decline of any state (56,400 jobs, compared with Ohio's 1,300 job decline). These sorts of statistics have become commonplace since Michigan employment peaked in June 2000, and even the infrequent positive statistic appears with a negative component. For example, in February 2007, Michigan exhibited the fifth largest monthly increase in employment (9,300 jobs) but still posted the second highest state unemployment rate, as well as the largest year-over-year decline in payroll employment, and the increase was insufficient to offset the loss of 23,900 jobs that occurred in the preceding month.

This article reviews the employment situation in Michigan compared with the situation in other states. The focus is on payroll employment, which is sometimes referred to as wage and salary employment. Payroll employment data are collected from surveys of businesses and differ from the employment data used when the unemployment rate is computed. The unemployment rate data are collected from surveys of households rather than businesses, and also include among the employed populace individuals who indicate they are "self-employed". The employment and labor force figures from the household survey can vary for a number of reasons, including people's expectations about the job market and shifting between being "self-employed" and looking for work with an employer.

Labor statistics can vary significantly from month to month for a variety of reasons, and not all states are affected to the same degree by different local, national, and international economic events. Similarly, employment is only one portion of how the economy is perceived. For example, the 2001 recession is dated as beginning in March 2001, the first month national-level payroll employment declined, and ending in November of that year. However, just as some states, such as Nevada and Alaska, continued to experience employment gains for months after the "beginning" of the recession, other states, such as Michigan and North Carolina, had already been experiencing declining employment for months. Furthermore, while the recession is officially dated as ending in November 2001, U.S. payroll employment did not begin a recovery until the second half of 2003, nearly another two years later. For some states, such as Michigan and Ohio, it is unclear whether a recovery in employment has even yet begun.

Michigan's Payroll Employment Performance

Without delving into the causes of Michigan's employment performance in recent years, it is difficult to find measures where Michigan does not rank last or exceedingly close to last. The choice of a benchmark period to measure performance is somewhat arbitrary, but regardless of which period is chosen, Michigan fares badly. Measured from peak to trough, out of 50



states plus the District of Columbia, Michigan exhibits the greatest employment decline, with seasonally adjusted payroll employment down 8.9% ([Table 3](#)). Even Louisiana, at the height of the impacts from Hurricane Katrina, reported payroll employment 8.0% below the prerecession peak. As of August 2007, only six states had failed to exceed their prerecession employment peak: Louisiana (-0.1%), Indiana (-0.6%), Illinois (-0.8%), Massachusetts (-2.9%), Ohio (-3.6%), and Michigan (-8.8%). Out of those six states, all but Michigan and Ohio posted employment gains for at least eight of the last 12 months. The length of the employment recession also has varied significantly between states, with the decline in Montana not beginning until June 2001, the middle of the U.S. recession, and lasting only three months. At the other extreme, 85 months after its peak, employment in Michigan is still falling.

While the U.S. recession is officially dated as ending in November 2001, the U.S. continued to lose jobs through July 2003 and reached a quarterly low during the second quarter of 2003 ([Table 1](#)). During the period from the fourth quarter of 2001 to the third quarter of 2003, when the economy was no longer in recession but payroll employment continued to decline, Michigan actually fared better than a few states, ranking 44th with a 1.8% decline of payroll jobs, ahead of Georgia, Illinois, Connecticut, Colorado, Kansas, Massachusetts, and Oklahoma. In contrast, during this period, employment nationally declined 0.8% and employment grew most rapidly in Nevada, rising 3.8%.

By the second quarter of 2003, payroll employment began rising nationally after 30 months of declines, although many states continued to see declining employment figures in subsequent months. Despite these continued declines, by the second quarter of 2007, the rest of the country had at least regained the employment level from the second quarter of 2003. However, between the second quarter of 2003 and the second quarter of 2007, Michigan's payroll employment growth ranked 51st out of the 50 states and the District of Columbia, actually falling 2.8%. By comparison, Louisiana ranked 50th, with a 0.4% increase in payroll employment. Excluding the 177,800 payroll jobs that Louisiana lost between August and October 2005 due to Hurricane Katrina, Ohio exhibited the next-worst payroll employment performance over the period, rising 0.6%. As a result, Michigan represents the only state to experience a decline in payroll employment over the period between the second quarters of 2003 and 2007. Michigan was also the only state to exhibit weaker payroll employment growth between the second quarters of 2003 and 2007 than during the period between the fourth quarter of 2001 and the second quarter of 2003.

Virtually all of Michigan's poor payroll employment performance, especially since the second quarter of 2003, can be attributed to changes in manufacturing employment, particularly in the motor vehicle manufacturing sector. Michigan's overall employment peak also corresponds to this State's manufacturing employment peak, and the job losses in manufacturing account for more than 76.1% of the decline in Michigan's payroll employment since the second quarter of 2003. Although Michigan had already lost more than 119,200 manufacturing workers before the fourth quarter of 2001, between that quarter and the second quarter of 2003, Michigan's manufacturing employment decline of 8.7% (68,900 jobs) ranked only 31st among the states ([Table 2](#)). However, between the second quarters of 2003 and 2007, Michigan manufacturing employment fell 12.9% (93,500 jobs), ranking 49th, above only Rhode Island and the District of Columbia, which have such small manufacturing sectors that



Michigan's job loss is nearly twice the total manufacturing employment in the two states combined. Over the same period, manufacturing employment declined 3.4% nationally and, on a seasonally adjusted basis, fewer than one-third of the states reported any increase in manufacturing employment at all.

While Michigan's private service-producing employment has performed better than manufacturing employment, the job losses in the manufacturing sector have exerted a dragging effect on service sector employment ([Table 2](#)). As a result, Michigan ranked 51st among the 50 states and the District of Columbia in private service-producing employment growth over the period from the second quarter of 2003 to the second quarter of 2007. Michigan's private service-producing employment rose 0.5% over that period, compared with a national gain of 7.9%. Louisiana ranked 50th, with a 0.7% increase, and Ohio ranked 49th, with a 3.1% increase. Fifteen states exhibited increases of 10.0% or more in private service-producing employment.

Employment declines quickly translate to lower tax revenue, particularly for state and local governments, which operate under balanced budget requirements. As a result, Michigan also has ranked poorly in employment growth in the government sector ([Table 2](#)). During the period from the fourth quarter of 2001 to the second quarter of 2003, Michigan employment in the government sector (a combination of Federal, state, and local government employment, including employment for state universities and local public school districts) rose 0.2% and ranked 43rd in the nation, comparatively lower than the declines in manufacturing employment (28th) and private service-producing employment (33rd). However, between the second quarter of 2003 and the second quarter of 2007, Michigan's 3.3% decline in government employment ranked 50th among the states and the District of Columbia, behind only Louisiana (-6.6%) and well below the 3.0% increase experienced nationally. Twelve states exhibited growth in government employment of 5.0% or more over the same period, while 11 states reported declines.

The Economics Behind the Employment Performance

Several important factors have largely driven Michigan's poor employment performance versus that of other states. One key factor underlying much of the variability in employment figures reflects population changes. States with rapidly growing populations have experienced greater employment growth. Certainly, individuals who lose their job in one state may move to another state for a new job. However, in states exhibiting the largest employment gains, the populations were growing rapidly even during periods in the 1990s when states like Michigan were posting economic gains not experienced for decades and in many cases, economic gains that exceeded those elsewhere in the country. Furthermore, most of Michigan's job losses have occurred in sectors where employment is not growing at the national level and few other states have meaningful employment, and the few states that do are experiencing the same type of contractions as those exhibited in Michigan.

For example, Nevada experienced an 11.7% increase in the population aged 18 to 64 between 2003 and 2006, the fastest growth of any state in the country ([Table 3](#)). Nevada also led the country with the fastest growth in payroll employment (17.8%), manufacturing employment growth (15.6%), and government employment growth (11.4%), and was second



in private service-producing employment growth (15.6%). (It should be noted that despite the rapid growth in manufacturing employment growth in Nevada, manufacturing employment in 2006 averaged 7.8% of Michigan's manufacturing employment during 2006 and represented 3.9% of total payroll employment, compared with 14.9% for Michigan.) A similar pattern exists for other rapidly growing states, such as Arizona, Utah, Idaho, Florida, and Washington. Conversely, states with the slowest population growth often have exhibited the weakest growth in employment; these include Louisiana, Michigan, New Jersey, Ohio, and Rhode Island.

Another important factor for job growth between states has been the reliance upon the manufacturing sector, particularly areas of manufacturing that have been affected significantly by both technological advances and increased international competition ([Table 3](#)). The resulting increased productivity has drastically reduced the need for manufacturing workers despite growth in the economy. Between 2001 and 2006, productivity in the manufacturing sector, as measured by output per worker, increased more than 28.3%, or an average of 5.1% per year, compared with an average annual growth rate of 3.3% over the 1987-2001 period. For the economy as a whole, productivity grew an average of 2.6% per year over the 2001-2006 period. While comparable detailed statistics for individual industrial sectors, such as vehicle manufacturing or furniture manufacturing, are not available, the statistics on durable goods manufacturing indicate that productivity has been rising more rapidly in these types of sectors than in the manufacturing sector as a whole.

The relationship between productivity improvements and employment declines is easy to illustrate. Assume there is a firm that employs 100 workers who make 1,000 units of a product and, as a result of factors such as an investment in new equipment, it can improve productivity by 5.0%. Also assume the demand for the firm's product remains at 1,000 units. With more productive workers, the firm can make the same 1,000 units using only 95 employees. In fact, any time the demand for a firm's products grows more slowly than productivity grows, the firm can still meet demand while reducing the number of workers. In the case of the manufacturing industry, productivity has risen by more than 5.0% per year since 2001 while inflation-adjusted consumption of durable and nondurable goods has risen about 4.0% per year.

In the case of motor vehicles, sales from General Motors, Ford, and Chrysler fell by an average of 3.7% per year over the 2001-2006 period. Combining productivity growth with the change in sales, it is easy to explain an average annual employment decline of 9.0% or more over that time period in Michigan's transportation equipment manufacturing sector. From that perspective, the actual annual decline of 7.0% in Michigan's transportation manufacturing employment sector looks almost favorable. Much of the explanation why employment in Michigan's transportation equipment manufacturing sector has not been greater reflects the aspect that non-Michigan facilities and activities have been reduced at a faster rate than in Michigan. Had Michigan experienced a 9.0% annual decline in transportation equipment manufacturing employment, by 2006 the sector would have been 22,600 jobs lower than the actual experience.

Complicating the productivity effects on the economy has been Michigan's reliance on the manufacturing sector. In 2001, more than 21.1% of Michigan's private-sector employment was



in the manufacturing sector, compared with a national average of 14.9%. By 2006, the gap had narrowed somewhat, and 17.7% of Michigan's private-sector employment was in the manufacturing sector, compared to a national average of 12.4%. Not surprisingly, three of the four states most reliant on transportation equipment manufacturing in 2001 (Indiana, Kansas, and Michigan) ranked in the bottom 10 in terms of employment growth over the 2001-2006 period. The sole exception is the State of Washington, where transportation equipment manufacturing is almost exclusively aircraft. Of the remaining states with the 10 slowest employment growth rates are three other states heavily reliant on transportation equipment manufacturing (Connecticut, Mississippi, and Ohio) and one other state with significant vehicle manufacturing employment (Illinois).

These manufacturing sectors also contribute heavily to growth in nonmanufacturing sectors, both with business-to-business purchases (such as purchases of accounting, advertising, legal, and other business services) and with the purchases made by their employees. As a result, five of the six states with the weakest growth in transportation equipment manufacturing employment over the 2001-2006 period are among the eight states with the weakest private service-producing employment growth over the same period.

Conclusion

Payroll employment in Michigan has remained in recession since June 2000. The poor performance of Michigan's employment reflects a massive transformation occurring in the manufacturing industry worldwide as well as the reliance the State exhibits on the sectors comprising Michigan's manufacturing industries. When the U.S. as a whole was in an economic recession, Michigan's employment performance ranked only slightly below average. Because other states are less reliant on core manufacturing industries that are facing limited market growth and experiencing significant gains in productivity, the end of the recession has allowed their economies to generate employment gains. Michigan's reliance on such industries is so significant that the job losses in manufacturing not only have exceeded potential gains in nonmanufacturing sectors, but have actually reduced the ability of those sectors to create new jobs. The patterns exhibited in Michigan employment are consistent with those in states with similar economic structures.

Given the productivity trends and changes in market demand, the employment situation in Michigan is actually not as poor as one might expect. To a large degree this performance reflects a growing concentration of vehicle production by domestic manufacturers in Michigan, meaning that the Michigan economy is diversifying at a slower rate compared with other states, in spite of the job losses in manufacturing. As Michigan continues transforming its manufacturing sector rapidly, and most forecasts suggest it will continue at this rate for a number of years, Michigan will continue to fall behind other states on most employment indicators. However, these transformations will ultimately result in stronger, more profitable industries. As a result, once the rate of transformation slows, Michigan will likely exhibit substantial gains in many economic measures, not just those associated with employment.

Table 1
Payroll Employment, by State: Selected Quarters, 2001, 2003 and 2007

	Payroll Employment (1,000s)			Percent Change					
	4th Quarter	2nd Quarter	2nd Quarter	4q01 to	Rank	2q03 to	Rank	4q01 to	Rank
	2001	2003	2007	2q03		2q07		2q07	
United States	130,931.7	129,845.0	137,864.3	-0.8%		6.2%		5.3%	
Alabama	1,895.6	1,872.6	2,008.2	-1.2%	41	7.2%	20	5.9%	21
Alaska	289.8	298.9	319.3	3.1%	3	6.8%	21	10.2%	10
Arizona	2,249.3	2,285.7	2,717.8	1.6%	6	18.9%	2	20.8%	2
Arkansas	1,146.7	1,140.8	1,208.7	-0.5%	24	6.0%	26	5.4%	26
California	14,472.9	14,394.9	15,259.4	-0.5%	25	6.0%	24	5.4%	25
Colorado	2,197.1	2,147.1	2,319.6	-2.3%	48	8.0%	17	5.6%	23
Connecticut	1,676.4	1,642.9	1,697.6	-2.0%	47	3.3%	41	1.3%	46
Delaware	415.9	413.4	439.3	-0.6%	29	6.3%	23	5.6%	22
District of Columbia	657.2	666.0	698.0	1.3%	8	4.8%	32	6.2%	20
Florida	7,141.6	7,225.9	8,127.8	1.2%	9	12.5%	6	13.8%	8
Georgia	3,906.8	3,834.5	4,150.5	-1.8%	45	8.2%	15	6.2%	19
Hawaii	547.3	565.1	628.1	3.3%	2	11.1%	8	14.8%	6
Idaho	564.3	569.5	653.9	0.9%	10	14.8%	4	15.9%	4
Illinois	5,924.0	5,810.5	5,988.1	-1.9%	46	3.1%	45	1.1%	47
Indiana	2,905.7	2,889.4	2,977.1	-0.6%	26	3.0%	46	2.5%	44
Iowa	1,451.9	1,435.7	1,521.3	-1.1%	38	6.0%	25	4.8%	28
Kansas	1,343.7	1,312.5	1,380.6	-2.3%	49	5.2%	29	2.7%	41
Kentucky	1,788.7	1,780.7	1,856.0	-0.4%	23	4.2%	37	3.8%	34
Louisiana	1,905.9	1,901.4	1,908.2	-0.2%	19	0.4%	50	0.1%	48
Maine	604.6	604.1	618.5	-0.1%	17	2.4%	47	2.3%	45
Maryland	2,472.7	2,486.5	2,609.6	0.6%	12	4.9%	31	5.5%	24
Massachusetts	3,292.7	3,200.3	3,274.9	-2.8%	50	2.3%	48	-0.5%	49
Michigan	4,497.3	4,415.0	4,292.9	-1.8%	44	-2.8%	51	-4.5%	51
Minnesota	2,672.5	2,660.7	2,785.9	-0.4%	22	4.7%	33	4.2%	32
Mississippi	1,122.7	1,110.1	1,159.3	-1.1%	39	4.4%	36	3.3%	37
Missouri	2,709.3	2,678.2	2,801.0	-1.1%	40	4.6%	34	3.4%	36
Montana	391.4	399.9	446.6	2.2%	4	11.7%	7	14.1%	7
Nebraska	920.6	912.9	961.8	-0.8%	32	5.4%	27	4.5%	31
Nevada	1,038.5	1,077.8	1,310.0	3.8%	1	21.5%	1	26.1%	1
New Hampshire	621.0	615.3	646.0	-0.9%	33	5.0%	30	4.0%	33
New Jersey	3,993.2	3,970.0	4,092.0	-0.6%	28	3.1%	44	2.5%	43
New Mexico	757.0	773.0	845.0	2.1%	5	9.3%	12	11.6%	9
New York	8,469.1	8,400.2	8,683.6	-0.8%	31	3.4%	40	2.5%	42
North Carolina	3,848.1	3,790.4	4,101.2	-1.5%	42	8.2%	16	6.6%	18
North Dakota	329.9	331.7	359.1	0.5%	13	8.3%	14	8.9%	12
Ohio	5,485.1	5,399.5	5,434.1	-1.6%	43	0.6%	49	-0.9%	50
Oklahoma	1,499.1	1,454.9	1,569.2	-2.9%	51	7.9%	19	4.7%	29
Oregon	1,584.9	1,567.3	1,724.2	-1.1%	37	10.0%	9	8.8%	13
Pennsylvania	5,643.6	5,608.2	5,799.1	-0.6%	30	3.4%	39	2.8%	40
Rhode Island	476.3	483.4	498.5	1.5%	7	3.1%	43	4.7%	30
South Carolina	1,805.4	1,804.3	1,924.4	-0.1%	16	6.7%	22	6.6%	17
South Dakota	377.3	377.5	407.3	0.1%	14	7.9%	18	8.0%	16
Tennessee	2,658.8	2,660.2	2,800.7	0.1%	15	5.3%	28	5.3%	27
Texas	9,447.1	9,359.0	10,264.3	-0.9%	34	9.7%	11	8.7%	14
Utah	1,074.1	1,069.4	1,255.1	-0.4%	21	17.4%	3	16.8%	3
Vermont	300.8	298.0	309.3	-1.0%	35	3.8%	38	2.8%	39
Virginia	3,491.7	3,485.1	3,779.4	-0.2%	18	8.4%	13	8.2%	15
Washington	2,666.5	2,651.0	2,909.2	-0.6%	27	9.7%	10	9.1%	11
West Virginia	734.6	727.1	759.4	-1.0%	36	4.5%	35	3.4%	35
Wisconsin	2,786.4	2,775.7	2,867.5	-0.4%	20	3.3%	42	2.9%	38
Wyoming	247.3	248.8	285.3	0.6%	11	14.7%	5	15.3%	5

Notes: Data reflect quarterly averages of seasonally adjusted monthly payroll employment figures.
National data are estimated separately from the states and thus do not equal the sum of the states.
Source: Bureau of Labor Statistics, U.S. Department of Labor.

Table 2
Percent Change in Payroll Employment, Selected Sectors, by State
Fourth Quarter 2001 to Second Quarter 2003 and Second Quarter 2003 to Second Quarter 2007

	Manufacturing				Private Service-Producing				Government			
	4q01 to 2q03	Rank	2q03 to 2q07	Rank	4q01 to 2q03	Rank	2q03 to 2q07	Rank	4q01 to 2q03	Rank	2q03 to 2q07	Rank
United States	-8.1%		-3.4%		-0.2%		7.9%		1.3%		3.0%	
Alabama	-6.7%	17	1.5%	17	-0.4%	37	8.8%	18	1.6%	21	5.0%	13
Alaska	40.2%	1	15.3%	2	7.9%	2	8.0%	23	2.9%	4	-0.7%	47
Arizona	-9.1%	36	6.3%	10	2.2%	10	20.8%	1	2.9%	5	6.0%	9
Arkansas	-6.6%	16	-6.4%	36	1.5%	11	8.6%	20	1.2%	28	6.6%	6
California	-8.8%	32	-3.9%	29	-0.2%	35	7.4%	27	0.7%	36	2.3%	23
Colorado	-10.1%	44	-4.9%	31	-2.0%	49	9.2%	17	2.2%	15	5.0%	14
Connecticut	-8.7%	29	-3.9%	28	-1.3%	45	4.9%	42	-1.0%	48	-0.3%	43
Delaware	-6.3%	14	-9.4%	44	-0.2%	36	7.0%	28	1.3%	25	6.6%	7
District of Columbia	-20.0%	51	-35.5%	51	0.9%	19	7.7%	25	0.7%	35	0.7%	36
Florida	-7.2%	22	0.1%	19	1.4%	12	12.7%	5	2.3%	13	6.2%	8
Georgia	-6.0%	11	-2.7%	26	-2.2%	51	9.7%	16	2.3%	12	7.0%	5
Hawaii	-6.7%	18	0.4%	18	53.6%	1	12.5%	6	1.5%	22	2.2%	24
Idaho	-6.2%	12	5.0%	13	2.3%	9	16.8%	3	1.3%	26	4.0%	16
Illinois	-8.2%	28	-5.5%	34	-1.6%	46	5.6%	39	0.1%	44	-1.5%	48
Indiana	-3.6%	4	-2.6%	25	-0.2%	34	4.7%	44	2.5%	10	1.5%	29
Iowa	-4.9%	6	5.5%	12	-0.5%	39	6.1%	34	-0.3%	46	1.9%	25
Kansas	-9.6%	38	6.9%	9	-1.7%	47	5.2%	41	-0.0%	45	3.2%	18
Kentucky	-6.7%	19	-2.3%	24	1.0%	18	6.5%	31	0.3%	41	1.0%	34
Louisiana	-6.5%	15	-0.9%	21	0.7%	21	0.7%	50	1.4%	24	-6.6%	51
Maine	-10.7%	45	-7.2%	38	1.4%	13	3.7%	48	0.6%	37	1.1%	33
Maryland	-9.7%	40	-9.4%	43	1.3%	14	6.2%	32	0.9%	34	1.5%	30
Massachusetts	-11.7%	47	-9.2%	42	-2.0%	50	4.2%	46	-3.3%	51	1.6%	27
Michigan	-8.7%	31	-12.9%	49	-0.2%	33	0.5%	51	0.2%	43	-3.3%	50
Minnesota	-6.2%	13	0.0%	20	0.2%	26	6.8%	29	0.5%	39	1.1%	32
Mississippi	-7.5%	24	-3.3%	27	0.8%	20	6.1%	33	1.0%	30	2.3%	22
Missouri	-5.7%	9	-4.5%	30	-0.6%	40	6.7%	30	1.5%	23	-0.6%	45
Montana	-9.7%	39	7.9%	8	3.2%	4	11.2%	11	3.2%	3	2.5%	21
Nebraska	-5.8%	10	-1.3%	22	0.0%	29	7.6%	26	2.0%	17	0.7%	37
Nevada	0.3%	2	19.6%	1	2.9%	6	19.3%	2	5.6%	1	16.3%	1
New Hampshire	-11.2%	46	-6.5%	37	0.2%	28	7.9%	24	2.7%	8	2.9%	20
New Jersey	-8.7%	30	-9.8%	45	-0.0%	31	3.9%	47	1.7%	19	5.0%	12
New Mexico	-9.1%	35	3.7%	15	2.5%	8	10.8%	13	4.3%	2	0.4%	39
New York	-9.8%	41	-10.0%	47	-1.2%	44	5.4%	40	0.6%	38	-0.1%	42
North Carolina	-9.8%	42	-9.9%	46	1.2%	16	12.0%	8	-0.6%	47	7.5%	3
North Dakota	-1.7%	3	10.9%	6	0.2%	27	8.7%	19	2.8%	7	0.5%	38
Ohio	-7.7%	25	-7.9%	40	-0.9%	42	3.1%	49	0.4%	40	-0.5%	44
Oklahoma	-13.7%	49	6.0%	11	-1.9%	48	5.9%	36	-1.2%	49	9.0%	2
Oregon	-7.2%	21	4.3%	14	-0.9%	43	11.3%	10	-1.6%	50	3.4%	17
Pennsylvania	-9.4%	37	-7.6%	39	0.3%	23	5.8%	38	1.8%	18	-0.0%	41
Rhode Island	-10.0%	43	-13.3%	50	2.9%	5	6.0%	35	1.3%	27	-3.0%	49
South Carolina	-7.5%	23	-12.0%	48	2.8%	7	12.3%	7	0.9%	33	1.8%	26
South Dakota	-4.2%	5	13.5%	4	1.2%	17	8.5%	21	0.9%	32	1.5%	28
Tennessee	-5.5%	8	-5.2%	33	0.7%	22	8.1%	22	1.7%	20	0.3%	40
Texas	-8.9%	33	2.8%	16	-0.5%	38	11.0%	12	2.8%	6	5.1%	11
Utah	-5.4%	7	13.7%	3	-0.8%	41	16.3%	4	2.2%	16	5.2%	10
Vermont	-14.4%	50	-5.1%	32	-0.1%	32	4.8%	43	2.6%	9	3.2%	19
Virginia	-7.9%	27	-6.2%	35	0.3%	24	10.0%	15	1.1%	29	7.1%	4
Washington	-12.6%	48	8.9%	7	0.0%	30	10.8%	14	2.2%	14	1.0%	35
West Virginia	-7.8%	26	-8.2%	41	0.2%	25	4.6%	45	0.9%	31	1.2%	31
Wisconsin	-6.9%	20	-1.8%	23	1.2%	15	5.9%	37	0.3%	42	-0.7%	46
Wyoming	-9.0%	34	10.9%	5	4.7%	3	12.0%	9	2.4%	11	4.5%	15

Notes: Data for manufacturing employment and private service-producing employment reflect quarterly averages of seasonally unadjusted monthly payroll employment figures, while government employment reflects seasonally adjusted employment figures.

Source: Bureau of Labor Statistics, U.S. Department of Labor.

Table 3
Selected Employment and Population Statistics, by State

	Mfg. Emp., % of Total				Peak-to-Trough				Population Growth (Age 18-64)			
	4th Qtr 2001	Rank	2nd Qtr 2007	Rank	Percent Change	Rank	Length in Months	Rank	Change 2001-06	Rank	Emp. Growth Less Pop.	Rank
United States	12.0%		10.2%		-2.1%		30		6.3%		-3.0%	
Alabama	16.6%	7	14.9%	5	-3.5%	34	37	9	3.8%	39	0.0%	9
Alaska	2.7%	50	3.8%	48	-0.4%	3	5	48	9.0%	8	-0.1%	11
Arizona	8.5%	39	6.9%	40	-1.6%	13	9	40	16.9%	2	-0.2%	12
Arkansas	19.1%	3	15.9%	3	-1.9%	16	34	13	5.6%	26	-1.6%	22
California	11.7%	24	9.8%	29	-2.5%	25	28	25	6.7%	19	-3.5%	36
Colorado	7.8%	41	6.3%	42	-4.6%	47	30	21	8.0%	12	-5.6%	49
Connecticut	13.0%	20	11.3%	19	-3.5%	37	36	11	4.5%	32	-4.6%	43
Delaware	9.2%	37	7.4%	38	-3.5%	36	23	34	7.9%	13	-3.9%	39
District of Columbia	0.5%	51	0.2%	51	-2.4%	23	4	50	1.1%	50	4.2%	3
Florida	6.0%	44	4.9%	44	-0.7%	6	5	48	12.5%	4	-0.7%	16
Georgia	12.3%	22	10.7%	21	-3.8%	39	29	23	11.2%	6	-7.6%	51
Hawaii	2.9%	49	2.4%	50	-2.4%	24	6	46	5.8%	24	5.3%	2
Idaho	11.7%	27	10.0%	28	-1.3%	10	12	38	12.7%	3	-0.1%	10
Illinois	13.1%	19	11.3%	20	-4.5%	44	41	4	3.9%	38	-4.9%	45
Indiana	20.3%	1	18.7%	1	-4.4%	42	38	8	4.1%	35	-2.8%	33
Iowa	15.8%	11	15.1%	4	-3.3%	33	39	7	3.7%	40	-1.2%	21
Kansas	14.2%	15	13.4%	11	-3.5%	35	35	12	4.5%	33	-4.1%	40
Kentucky	15.7%	12	13.9%	10	-3.1%	29	33	15	4.0%	37	-1.8%	25
Louisiana	8.7%	38	8.1%	34	-8.0%	50	65	2	-2.5%	51	-0.6%	14
Maine	11.7%	26	9.6%	30	-1.3%	9	7	44	5.6%	25	-4.5%	42
Maryland	6.6%	43	5.1%	43	-0.6%	4	9	40	5.9%	23	-1.2%	20
Massachusetts	11.2%	29	9.0%	32	-6.1%	49	34	13	2.2%	48	-5.1%	47
Michigan	17.4%	5	14.5%	7	-8.9%	51	85	1	2.7%	45	-7.5%	50
Minnesota	13.6%	18	12.3%	14	-2.0%	18	33	15	5.9%	22	-3.3%	35
Mississippi	17.2%	6	14.9%	6	-4.6%	46	37	9	2.7%	44	-1.6%	23
Missouri	12.2%	23	10.7%	22	-3.0%	28	44	3	5.4%	28	-3.8%	38
Montana	5.4%	45	4.6%	45	-0.7%	5	3	51	7.0%	16	3.8%	5
Nebraska	11.7%	25	10.4%	23	-1.6%	14	8	43	4.7%	30	-1.8%	24
Nevada	4.1%	47	4.0%	47	-2.0%	17	7	44	19.2%	1	2.7%	6
New Hampshire	14.5%	13	11.6%	15	-3.2%	31	26	30	7.2%	15	-5.2%	48
New Jersey	9.6%	34	7.7%	36	-1.5%	12	27	28	4.1%	36	-2.1%	27
New Mexico	5.2%	46	4.4%	46	0.2%	1	6	46	8.2%	11	1.9%	7
New York	8.0%	40	6.4%	41	-3.6%	38	31	19	2.5%	46	-2.3%	29
North Carolina	17.4%	4	13.3%	12	-4.5%	45	30	21	7.9%	14	-4.6%	44
North Dakota	7.2%	42	7.2%	39	-1.0%	7	10	39	3.0%	43	4.0%	4
Ohio	16.6%	8	14.3%	8	-4.4%	43	41	4	2.4%	47	-4.2%	41
Oklahoma	10.9%	31	9.5%	31	-4.3%	41	24	31	4.2%	34	-1.2%	19
Oregon	13.0%	21	11.6%	16	-4.0%	40	31	19	8.4%	10	-2.4%	30
Pennsylvania	13.9%	16	11.4%	18	-2.1%	19	29	23	3.5%	42	-2.2%	28
Rhode Island	13.6%	17	10.2%	25	-1.4%	11	9	40	3.6%	41	-0.4%	13
South Carolina	16.6%	9	12.6%	13	-4.8%	48	19	35	6.8%	17	-2.5%	31
South Dakota	10.4%	33	10.4%	24	-1.1%	8	24	31	5.9%	21	-0.6%	15
Tennessee	16.3%	10	14.0%	9	-3.2%	32	40	6	5.4%	29	-1.9%	26
Texas	10.4%	32	9.0%	33	-2.3%	21	28	25	10.7%	7	-5.1%	46
Utah	10.9%	30	10.2%	26	-1.6%	15	24	31	12.3%	5	-1.0%	18
Vermont	14.5%	14	11.6%	17	-2.3%	22	27	28	4.7%	31	-2.9%	34
Virginia	9.4%	36	7.6%	37	-2.2%	20	28	25	6.8%	18	-0.9%	17
Washington	11.4%	28	10.0%	27	-3.1%	30	15	37	8.6%	9	-2.5%	32
West Virginia	9.5%	35	7.8%	35	-2.9%	27	33	15	1.9%	49	1.0%	8
Wisconsin	19.3%	2	17.2%	2	-2.7%	26	32	18	5.4%	27	-3.7%	37
Wyoming	4.1%	48	3.5%	49	-0.4%	2	16	36	6.7%	20	6.1%	1

Notes: Data for manufacturing share of total employment reflect quarterly averages of seasonally unadjusted monthly payroll employment figures.

Data for peak-to-trough employment decline reflect seasonally adjusted monthly payroll employment figures.

Data for population changes and the employment growth rate less population growth rate reflect annual averages.

Source: Bureau of Labor Statistics, U.S. Department of Labor and Bureau of the Census, U.S. Department of Commerce.

State Notes

TOPICS OF LEGISLATIVE INTEREST

September/October 2007



The Jobs, Education and Training Program and Welfare Reform **By Constance A. Cole, Fiscal Analyst**

The Jobs, Education and Training (JET) Program was developed by the Department of Human Services (DHS) to help cash assistance recipients overcome barriers to becoming self-sufficient and attain self sufficiency through increased income. The JET Program was implemented initially within four Michigan sites in April 2006, serving 10.0% of the State's Family Independence Program (FIP) population. Since September 2007, the JET Program has been implemented statewide, serving 100% of the FIP population. This article provides a general overview of the major program provisions, the impact on the State's welfare program, and the JET Program's funding.

Program Development History

The JET Program was developed as a pilot program by the Workforce Action Network. The Network is an advisory group made up of representatives from the Department of Human Services (DHS) – including county DHS representatives, the Department of Labor and Economic Growth (DLEG), Michigan Works agencies, community-based service organizations, research institutions, business and industry associations, foundations, and other State departments and agencies. The representatives came together in the late summer of 2004 at the request of the Directors of the DHS and DLEG for the purpose of reshaping the employment, training, and support services for federally funded Temporary Assistance for Needy Families (TANF) recipients. The result of the meetings was the pilot JET Program.

Family Independence Program applicants are required by the Federal TANF program to combine cash assistance with employment. The JET Program places an emphasis on a family self-sufficiency plan developed by the applicant and the DHS and DLEG case managers, outlining the activities needed to achieve a goal of employment and self sufficiency. The plan provides for client assessments, removal of barriers to work, and enhanced community planning with local resources for applicants to reach their employment goals.

Welfare Reform Issues

The Work First Program, the State's 12-year-old training and employment search assistance program, and the JET Program require that cash assistance clients engage in a weekly orientation session before their case is opened. This policy, which applies to all FIP cases, was implemented in May 2007 after a period of cases' being opened before orientation participation, which had significantly increased the caseload. The pilot JET Program evaluation process, begun with the program implementation in April 2006, provides Michigan Rehabilitation Services (MRS) assessments for FIP clients who are deferred from work due to incapacity. The assessments provide important information that guides case managers and deferred clients in taking advantage of the Work First Program's training and employment search opportunities through Michigan Works agencies, in order to improve the clients' ability to find work suitable for their circumstances.

Other FIP policy changes were made in fiscal year (FY) 2006-07 in order to support the increased goals of program engagement, participation, and accountability. Public Act (P.A.)



468 of 2006 amended the Social Welfare Act to establish increased requirements and Work First participation exceptions for recipients. Under Section 57f, once an initial determination of cash assistance is made, an eligible adult in the family group, who is not exempt from Work First participation, is assigned work-related activities, such as employment, employment search, education or training, community service, or self-improvement activities. The recipient must participate in a Family Assessment Screening and develop a Family Self-Sufficiency Plan (FSSP) in conjunction with the case manager. The FSSP requirements provide for the responsibilities of each family group member, including required employment, training or education activities, the number of hours of work required (up to 40 hours per week), and whether there are any barriers or restrictions to employment. These amended provisions will expire on September 30, 2011.

Stronger FIP penalties also were enacted by P.A. 468. Section 57g(10) provides for a three-tiered sanction system that will be applied if a recipient does not meet his or her individual FSSP requirements. The first and second instances of noncompliance each will result in ineligibility for benefits for three calendar months, and the third will result in 12 calendar months of ineligibility. The former sanction was a one-month suspension for each incidence of noncompliance. The penalty will not be imposed if the FIP and Work First case workers agree that good cause exists for the noncompliance. The amended sanction provision will expire on September 30, 2011.

Section 57r provides that, as of October 1, 2007, an adult may receive cash assistance for not longer than a cumulative total of 48 months during his or her lifetime. If the adult recipient is meeting all of his or her FSSP requirements, has not received more than two penalties since December 31, 2006, and has not received any penalties in the previous 12 months, and economic conditions or employment barriers prevent employment, the recipient may apply for an extension of FIP benefits not to exceed 12 months beyond the 48-month period. Section 57t required that the JET Program be implemented across the entire State by September 30, 2007.

There is also postemployment support for FIP recipients if they continue to meet the work participation requirements and earn income sufficient to leave the FIP as they make the transition off the FIP caseload. These recipients do not receive a full assistance grant, but receive \$10 per month for six months of postemployment support. The provision of this support allows the State to count the cases toward the Federal work participation requirement. This policy change was enacted by P.A. 471 of 2006.

In addition, the JET Program includes a new short-term family support provision. This program assists individuals who need cash assistance for unexpected financial hardships, such as sudden loss of employment, maternity leave, or medical leave without pay. It is intended to prevent FIP applicants from needing ongoing cash assistance. The FIP case manager evaluates an applicant to determine if this program's one-time lump sum payment is appropriate. The short-term payment is approximately three times the FIP grant, but is offered only to applicants who have some recent employment history and no recent FIP history. The applicants also must participate in the development of a self-sufficiency plan.

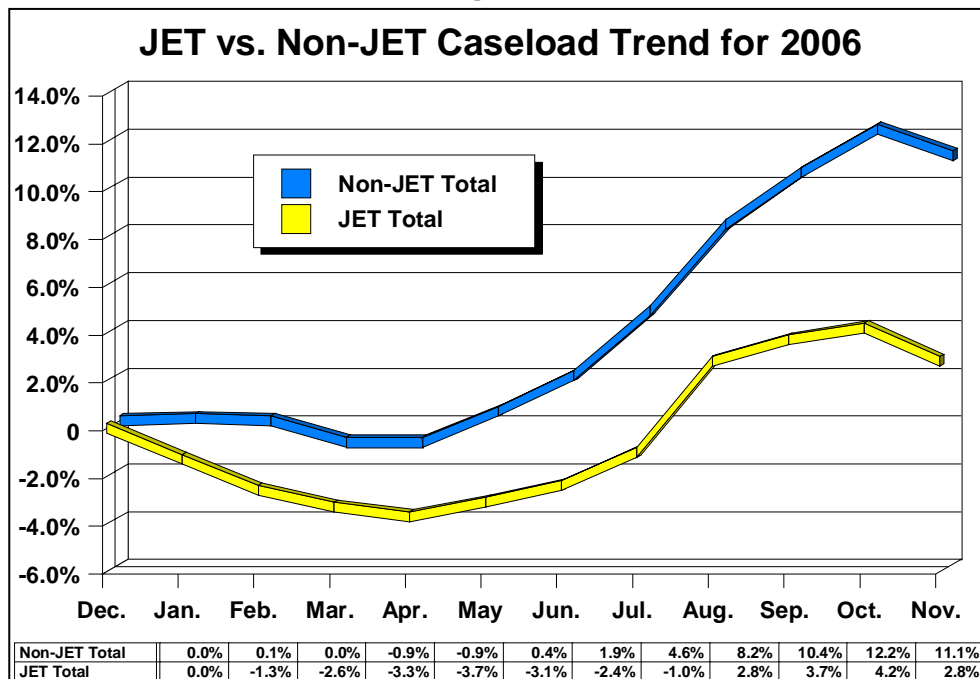


Pilot Program Service Locations

The pilot JET Program was implemented in April 2006 in four sites: Kent, Sanilac, and Oakland Counties and the Glendale/Trumbull district in Wayne County. Approximately 10.0% of the FIP TANF-funded caseload was served. The pilot program was implemented in an additional 20 sites in January 2007, serving a total of 50.0% of the FIP TANF-funded cases. This second tier of sites included the following counties: Antrim, Benzie, Berrien, Clinton, Eaton, Genesee (all districts), Grand Traverse, Ingham, Kalkaska, Macomb (all districts), Manistee, Muskegon, Saginaw, and Washtenaw. It also included the following regions: Oakland County – Walled Lake and Pontiac, and Wayne County – Medbury, Forest/Ellery, Gratiot/7 Mile, and Hamtramck. The Program was implemented statewide beginning in September 2007.

The initial data indicate that the relative caseload trends include caseload growth in the non-JET sites and caseload reduction in the pilot JET Program sites (Figures 1 and 2). During 2006, the TANF-funded non-JET cases increased over 13.0%; however, the JET caseload grew but at the lower rate of 2.7%, or one-fifth of the non-JET rate. The overall FIP-funded caseload dropped in 2007, apparently due to policy changes discussed above, particularly the requirement for participation in Work First orientation before the opening of the case. The total rate of the JET pilot caseload drop is higher than the non-JET caseload decline. According to DHS September 2007 data, the JET caseload was 44,177 cases in December 2006 and was down 6,426 cases in September 2007, a 14.5% reduction. The non-JET cases were 44,618 in December 2006 and down 4,687 cases in September 2007, a 10.5% reduction.

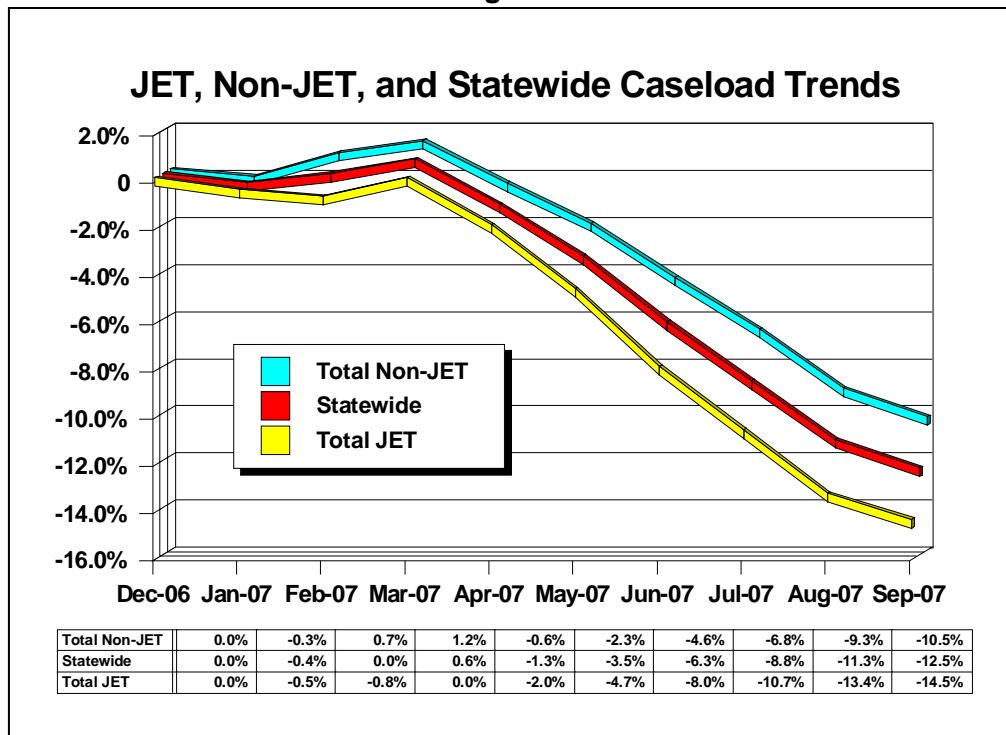
Figure 1



Source: Department of Human Services, Income Support Programs



Figure 2



Source: Department of Human Services, Income Support Programs

The pilot JET Program FY 2006-07 appropriation of \$1.4 million Gross and General Fund/General Purpose (GF/GP) was included in the Adult and Family Services Employment and Training Support Services line for the four-site pilot program. The appropriation included funding for MRS positions for assessments, additional FIP eligibility and support staff, 300 client reviews, direct support services, counseling contracts, and remedial education. The FIP appropriation estimated savings associated with the pilot program of \$12.4 million Gross and GF/GP from a reduction in the assistance payments (in anticipation of increased employment) as a result of additional MRS reviews. Another \$23.5 million Gross and GF was added in FY 2006-07 to support additional FIP and MRS staff and service support, counseling, education, and training services for JET expansion to serve 50.0% (an increase from the 10.0% pilot service area) of the statewide FIP caseload. The Governor's recommended JET FY 2007-08 appropriation for statewide implementation is \$18.0 million Gross, \$16.1 million GF/GP, including an additional 30.0 average full-time equated employee positions in the DHS and funding for support services, counseling, education, and training services to expand the program to 100% of the statewide FIP caseload. It is anticipated that the JET Program-related savings will be determined more precisely during the FY 2008-09 budget development process.



JET Program Outcomes

The DHS and DLEG have three major goals: 1) to make further reductions in the FIP caseload; 2) to increase by 9.0% the JET clients' participation in education or training; and 3) to increase the number and percentage of FIP recipients in federally required work participation. The DHS plan is to reduce the number of the State's children who are living in poverty, as well as reduce the FIP recidivism rate and the percentage of FIP families that need cash assistance after their case is closed due to employment earnings and reapply for the FIP. In other words, the DHS aims to increase the number of FIP recipients who achieve a gain in employment wages and over a significant period of time are able to sustain their employment.

State Notes

TOPICS OF LEGISLATIVE INTEREST

September/October 2007



FAQ: Michigan Natural Resources Trust Fund **By Jessica Runnels, Fiscal Analyst**

One of the most fussy fund sources is the Michigan Natural Resources Trust Fund (MNRTF). The MNRTF is established in the Michigan Constitution. It functions in a simple and straightforward manner and, since it is a constitutional fund, there are no exceptions. Below are frequently asked questions about the MNRTF.

Where does the MNRTF get revenue?

According to the Article IX, Section 35 of the Michigan Constitution, the MNRTF receives revenue from "all bonuses, rentals, delayed rentals, and royalties collected or reserved by the state under provisions of leases for the extraction of nonrenewable resources from state owned lands". In other words, the MNRTF receives revenue from companies that pay for the right to extract metallic and nonmetallic minerals, oil, and natural gas from State-owned land that was purchased using the MNRTF. Individuals bid for the right to extract the minerals and then they pay a per-acre rental rate and royalties on the amount of material extracted. The rates and royalties vary depending on the type of mineral. Oil and natural gas extraction comprises the bulk of activity and revenue.

What revenue does *not* go to the MNRTF?

Under the Michigan Constitution, the MNRTF does not receive "revenues accruing under leases of state owned lands acquired with money from state or federal game and fish protection funds or revenues accruing from lands purchased with such revenues". Basically, the fund used to purchase the State land determines where revenue from royalties is deposited. Most royalty revenue is deposited into the MNRTF, but, for the land purchased with Game and Fish Protection Fund money and Federal revenue, any royalties from extraction of nonrenewable resources are deposited into the Game and Fish Protection Trust Fund, which also is established in the Michigan Constitution in Article IX, Section 41.

How and when was the MNRTF created?

The MNRTF was created in 1984 by Proposal B in the November general election; however, it was based on the Kammer Recreational Land Trust Fund, which was created in July 1976. The Kammer Recreational Land Trust Fund collected revenue from the sale of oil, gas, and mineral leases and royalties from resources extracted from State land to use for public acquisition of recreational lands. The 1984 ballot language created the MNRTF in the State Constitution and rolled the Kammer Recreational Land Trust Fund into the new fund. The 1984 Proposal B also expanded use of the Trust Fund to the development of recreational facilities, not just land acquisition, and created a cap of \$200.0 million on the principal amount of the MNRTF.

In 1994, approval of Proposal P increased the cap on the principal amount of the MNRTF from \$200.0 million to \$400.0 million.

In 2002, approval of Proposal 2 authorized additional investment options for the MNRTF and raised the cap on the Fund again, from \$400.0 million to \$500.0 million. In addition to interest



earnings, Proposal 2 authorized up to one-third of the annual revenue to be spent each year until the cap is reached.

What do "corpus", "principal", and "permanent investment" mean? How much money is in there?

These three terms are used interchangeably for the MNRTF. The constitutional language establishing the MNRTF requires that a portion of the money be set aside for long-term investment and a portion of the money be spent annually, primarily for land acquisition and recreation development grants. The portion dedicated for long-term investment is accounted for separately and is called the "corpus", "principal", or "permanent investment", depending on the publication. Each year, the principal amount earns interest that may be spent on projects or other uses of the MNRTF. As of September 30, 2006, the balance of the permanent investment of the MNRTF was \$312,509,000. Over the past 10 years, the permanent investment has increased by about \$20.0 million annually.

How much revenue does the Fund receive annually and how much is distributed?

Over the last 10 years, the MNRTF has received average annual revenue of \$58.5 million. Annual revenue to the MNRTF depends on the amount of minerals extracted and it may fluctuate a lot from year to year. The interest earnings and up to one-third of the annual revenue may be spent each year until the cap of \$500.0 million is reached. Once the cap is reached, only the interest earnings of the MNRTF may be spent and all other revenue is deposited into the permanent investment of State Parks Endowment Fund, until the cap of \$800.0 million on the Endowment Fund is reached.

At that point, the Constitution requires that the money be "distributed as provided by law". Once the principal caps of both funds are reached, it is unclear whether the annual revenue would have to be spent for the purposes of either the MNRTF or the State Parks Endowment Fund or whether it would be available for any purpose. A determination on this will not be necessary for many decades since there is a long way to go before the caps on the principal amounts of both funds are reached. (As of September, 30, 2006, the principal of the MNRTF was about \$313.0 million and the principal of the State Parks Endowment Fund was about \$123.0 million.)

How is money in the MNRTF spent?

The interest earnings on the permanent investment plus one-third of the annual revenue from leases and royalties are distributed annually. The balance is deposited into the permanent investment of the Fund. The Michigan Constitution also specifies that, until the MNRTF permanent investment reaches \$500.0 million, \$10.0 million in annual revenue to the MNRTF is deposited into the State Parks Endowment Fund.

The portion of the annual revenue to the MNRTF that may be spent is used for four different purposes: (1) land acquisition projects; (2) recreation development projects; (3) administration of the Fund; and (4) payments in lieu of taxes on land purchased by the Fund. Each of these purposes is identified individually in the constitutional language, along with a requirement that



local units of government provide a portion of the cost of a project funded by a grant from the MNRTF.

In fiscal year (FY) 2007-08, \$2.6 million was appropriated for administrative expenses related to the MNRTF and \$500,000 was appropriated for payments in lieu of taxes on land purchased by the State with the Fund.

Money for land acquisition projects and recreation development projects is distributed in the form of grants. Most years, the balance of the two types of grants is 75:25, with the larger portion going to acquisition projects. The Constitution states, "Not less than 25 percent of the total amounts made available for expenditure from the trust fund from any state fiscal year shall be expended for acquisition of land and rights in land and not more than 25 percent of the total amounts made available for expenditure from the trust fund from any state fiscal year shall be expended for development of public recreation facilities." The MNRTF Board may increase the ratio of acquisition projects to development projects, but a 75:25 balance maximizes the amount distributed for recreation development.

Both local units of government and State departments may apply for funding. Matching funds are required only from local units. In FY 2006-07, 54.5% of the total funding for acquisition projects was awarded to local units of government and 75.4% of the total funding for recreation development projects was awarded to local units.

Who gets the money and how?

The Michigan Natural Resources Trust Fund Board annually reviews and approves grant applications from communities across the State for land acquisition and recreation development projects. The Board consists of five members: the chairperson of the Natural Resources Commission and four other members appointed by the Governor to four-year terms with the advice and consent of the Senate. The Board's recommendations are submitted to the Governor, who in turn submits them to the Legislature in an appropriation bill. Neither the Governor nor the Legislature has ever added a new project to the list submitted by the Board, although that is not prohibited in the Constitution or in statute. A handful of projects have been removed from the list by the Legislature.

The acquisition and development grants are awarded to local units of government and the Department of Natural Resources (DNR) on a reimbursement basis. Grant applicants must be a local unit of government, which may include a school district, or any combination of local units that is constituted to provide recreation. Applicants must have a recreation plan approved by the DNR to be eligible. A minimum match of 25.0% is required from local government applicants.

The Board develops annual criteria for evaluating grant applications, assigns points to each project, and funds as many projects as it can with the money available. The Board members are assisted by DNR grant management staff in reviewing all of the applications. The criteria for evaluating applications are published each year in January when the applications become available. Grant applications for recreation development and acquisition projects are due by the first week day in April. Acquisition projects also have a secondary application deadline of the first week day in August. The final project list with point scores is presented in December, at



which time the Board votes to fund the top-ranked and highest-priority projects. The entire review process, from application to grant distribution, usually takes between 12 and 18 months, depending on the appropriation process. The project evaluation criteria and possible points are shown in Table 1.

Table 1

Evaluation Criteria For MI Natural Resources Trust Fund Projects	
Criteria	Points Available
Need for Project	10, 30, 50
Applicant History	10, 30, 50
Site Quality	0, 10, 30, 50
Project Quality	0, 10, 30, 50
Protection or Use of Significant Natural Resources	0, 10, 30, 50
Use of Inland Water Resources	0, 10, 30, 50
Hunting, Fishing, and Other Wildlife-Related Opportunities	0, 10, 30, 50
Access Opportunities	0, 10, 30, 50
Population Served by Project	0, 15, 30, 40
Financial Need of Applicant.....	0, 20, 40
Percentage of Cash Match.....	0, 10, 20, 30, 40
Oil and Gas Impacted Areas	0, 15, 30, 40
Special Initiatives of the Board	0 - 255
Total Points Available	815

Source: Michigan Natural Resources Trust Fund Board

The last criterion on the list above is special initiatives of the Board and, in 2007, there are six special initiatives for which a project may receive points. The initiatives encourage projects that connect existing recreation opportunities (land parcels or trailways); open land to hunting, include land within an established winter deer yard or create a buffer area to sensitive habitat; involve facilities in urban areas; or provide universally accessible outdoor recreation opportunities; and projects in which no fee is charged for access to the site.

How much land does the State own that was purchased using the MNRTF? What happens if the State sells that land?

The State owns approximately 144,000 acres of land that were purchased using the Fund. If any of this land were sold, any revenue from the sale would be deposited back into the MNRTF.

Will this continue indefinitely?

Theoretically, no, it cannot continue indefinitely. The royalties and leases are paid for the extraction of nonrenewable resources. Eventually those resources will be gone or located in places where extraction is impractical or not economically viable. However, each year new deposits of minerals, oil, and natural gas are found and the State purchases more land using the MNRTF, which increases the opportunity for collecting royalties on mineral extraction.